

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 IO-10 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 COME-00 XMB-02

FRB-03 CIAE-00 INR-07 NSAE-00 ISO-00 /085 W

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R 120900Z AUG 75

FM AMEMBASSY TOKYO

TO SECSTATE WASHDC 2406

INFO AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMCONSUL HONG KONG

USMISSION OECD PARIS

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DEPT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

TAGS: EFIN, JA

SUBJ: BOJ REDUCES DISCOUNT RATE FOR THIRD TIME

1. SUMMARY: BANK OF JAPAN VOTED AUG 12 TO REDUCE DISCOUNT RATE BY 0.5 PERCENT TO 7 PERCENT. DISCOUNT RATE CUT FOLLOWS REDUCTION OF 0.5 PERCENT IN APRIL AND IN JUNE AND HAD ALREADY BEEN WIDELY ANTICIPATED FOR SEVERAL WEEKS. POLICY BOARD DECIDED TO MAINTAIN INTEREST RATES PAID BY BANKS TO DEPOSITORS AT EXISTING LEVELS AND DID NOT CHANGE RESERVE REQUIREMENTS. END SUMMARY.

2. FOLLOWING SEVERAL WEEKS OF NEWS REPORTS AND SPECULATION, BOJ POLICY BOARD REDUCED CENTRAL BANK DISCOUNT RATE BY 0.5 PERCENT EFFECTIVE AUG 13. REDUCTION BRINGS RATE DOWN TO 7.5 PERCENT, IN CONTRAST TO 9 PERCENT RATE MAINTAINED THROUGHOUT 1974 AND UNTIL APRIL 1975. RATE REDUCTION COMES

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AT A TIME WHEN BUSINESS COMMUNITY IS LOOKING WITH GROW-

ING URGENCY TO GOJ FOR A STRONG PUSH TO PUT SOME MOMENT-
TUM INTO JAPAN'S RECOVERY.

3. BOJ VOTED TO MAINTAIN RATES FOR BANK DEPOSITS AT
PRESENT LEVELS. RATES PAID TO DEPOSITORS, PARTICULARLY
FOR FIXED-TERM DEPOSITS, ARE CONSIDERED A "SENSIVITE
POLITICAL" (PERHAPS BECAUSE BANKS HAD RECORD PROFITS) ISSUE
AND THAT SENSITIVITY HAS BEEN INCREASED AS A RESULT
OF SEVERE INFLATION OF THE PAST YEAR. (RATE
ON ONE-YEAR TIME DEPOSITS OF 7.75 PERCENT IS NOW HIGHER
THAN DISCOUNT RATE.) POLICY BOARD ALSO ELECTED TO MAIN-
TAIN RESERVE REQUIREMENTS AT PRESENT LEVELS (1.5 PER-
CENT ON DEMAND DEPOSITS). THIS DECISION ALSO REFLECTS
POLITICAL ELEMENTS, SINCE RESERVE REQUIREMENTS HAVE A
MORE SIGNIFICANT IMPACT ON CITY RATHER THAN LOCAL BANKS.

4. IN CONVERSATION WITH ASST FINATT BOJ OFFICIAL ADMITTED
THAT PRESSURE FOR A FOURTH DISCOUNT RATE CUT (PROBABLY IN OCT)
IS SO STRONG THAT BANK IS VIRTUALLY RESIGNED TO IT. A FURTHER
CUT TO 7.0 PERCENT WOULD BRING CENTRAL BANK DISCOUNT
RATE TO SAME LEVEL AS AVERAGE RATE BANKS PAY TO THEIR
DEPOSITORS. BOJ OFFICIAL SAID THAT POLITICAL PROBLEMS
WOULD MAKE IT DIFFICULT TO LOWER DEPOSIT RATES, NEVER-
THELESS IT SHOULD BE POSSIBLE TO REDUCE THE RATES PAID
ON DEPOSITS WITH TERMS OF LESS THAN SIX MONTHS. ACCORDING
TO SOURCE, BOJ WOULD LIKE TO LOWER RESERVE REQUIREMRNTS
AT THAT TIME EVEN THOUGH THIS WOULD BRING BOJ UNDER
CRITICISM FOR "FAVORING BIG CITY BANKS."

5. PREVIOUS DISCOUNT RATE CUTS DURING 1975 HAVE BROUGHT
AVERAGE CONTRACT RATE ON LOANS DOWN MORE QUICKLY THAN
HAD BEEN TRUE IN PAST (SEE TOKYO A-340). (ON OTHER HAND,
EFFECTIVE BORROWING RATE WHICH TAKES ACCOUNT OF COMPENSAT-
INT BALANCES REPORTEDLY REMAINS IN 12-13 PERCENT RANGE.)
OFFICIALS IN ONE OF NATIONS'S MAJOR CITY BANKS TOLD ASST
FINATT THAT CITY BANKS ARE COPING WITH NARROWING OF
SPREAD BETTER THAN SMALLER LOCAL BANKS. HOWEVER, BOJ
OFFICIAL ANTICIPATED THAT PACE OF DECLINE IN LENDING RATES
WOULD SLOW SOON, SINCE LOAN DEMAND APPEARS TO HAVE FIRMED,
AS CORPORATIONS SEEK TO FINANCE INVENTORIES OF COMMODITIES
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DESTINED FOR EXPORT. OFFICIAL ALSO NOTED THAT
CONTRARY TO NEWSPAPER REPORTS BOJ DISCOUNT WINDOW CONTINUES
TO BE FULLY UTILIZED.
SHOESMITH

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